

Rand
SANTA MONICA, CA. 90406

ARTHUR J. ALEXANDER
Associate Head
Economics Department

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Mr. David D. Gries
NIO for East Asia
Room 7E62
Central Intelligence Agency
Washington, DC 20503

Dear David:

I am enclosing a study on barriers to U.S. activities in the accounting industry in Japan. To summarize our findings, we note that all of the American Big-Eight accounting firms operate in Japan and, indeed, number among the largest firms there (Table 4, p. 15). However, with one exception, they have been denied corporate audit status, which bars U.S. firms from going after purely domestic Japanese business. The one exception is Price Waterhouse, which was approved by the Ministry of Finance last summer (after about a decade of waiting). A few of the other firms have leap-frogged this barrier by associating with Japanese firms.

When we look behind the barriers we find highly restricted entry of Japanese nationals into the CPA ranks; only 3-4 percent of applicants make it through the multi-phased series of exams. As one might expect, therefore, incomes are quite high: for members of CPA firms, we estimate annual incomes of \$50,000-\$70,000 (Table 2, p. 10). The Ministry of Finance, which supervises the industry, views its goal as "preventing disorderly markets" by restricting full competition from powerful, foreign firms. This may be based on an "infant industry" argument that the domestic CPAs are not capable of standing up to the Americans. However, it is likely that the preservation of high, monopoly incomes is another goal--even though it may not be explicit or even conscious behavior. There seems to be some change in response to growing domestic demand, but the pace is slow. It is not clear, for example, whether approval of Price Waterhouse was an exception or the start of a trend.

We are leaving for Japan this week for further interviews with Ministry of Finance officials and other government and industry people, where we shall be trying to clear up questions raised in our analysis. On our return, we shall be completing the additional case studies and our final report. A draft final report is now scheduled to be delivered to you in March.

David Gries

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The one general finding that seems to flow from a synthesis of our several cases is that government supervision with high internal barriers to potential competitors is also associated with high barriers to foreign competition.

I will give you a call in early February after we return from this trip.

Best regards,



Arthur J. Alexander

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